UNITED STATES
ATOMIC ENERGY COMMISSION
WASHINGTON, D.C. 20545

SEP 17 1970

R. L. Tedesco, Chief
BWR Projects Branch #2, DRL
THRU: Walker E. Campbell, Assistant Controller for Accounting

TOLEDO EDISON COMPANY AND THE CLEVELAND ELECTRIC ILLUMINATING COMPANY - DAVIS-BESSE NUCLEAR POWER STATION - DOCKET NO. 50-346

Enclosed is my financial testimony on the subject matter. The testimony has been prepared as an appendix to the staff's Safety Evaluation with a brief summary for inclusion in the main body of the Safety Evaluation. A copy of the testimony is being sent to Thomas F. Engelhardt, OGC.

Charles A. Lovejoy
Staff Accountant
Accounting Procedures Branch
Office of the Controller

Enclosure:
As stated

cc: T. F. Engelhardt, OGC

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FINANCIAL QUALIFICATIONS

Based upon the evaluation of the financial information presented in the application and Amendment No. 10 thereto, it is the staff's opinion that the Toledo Edison Company and the Cleveland Electric Illuminating Company are financially qualified, as their interests may appear, to design and construct the nuclear generating station to be known as the Davis-Besse Nuclear Power Station.

The estimated cost to construct the facility, including the first core fuel, is $305,742,000 of which $266,102,000 is for the nuclear production plant, $14,030,000 is for the associated transmission and general plant and $25,610,000 is for the nuclear fuel inventory for the first core. We have determined that the estimated costs of production plant construction are reasonable in that, in the staff's opinion, the estimate should be amply sufficient to cover all applicable costs and the fuel requirements for the first core are reasonable.

The Davis-Besse Station will be owned and financed by the applicants as tenants in common without right of partition in the following percentages: Toledo Edison, 52.5% and Cleveland Electric, 47.5%. Each applicant will provide its own share of the funds required as part of its normal construction program (e.g., retained earnings, depreciation accruals, sale of debt and equity securities).

An analysis of the applicants' financial statements over the past several years indicates, for each company, a strong financial position, sound financing, adequate resources and a high level of earnings. This analysis, together with the reasonable assumption that such earnings will continue and each applicant's high credit and bond ratings, supports the conclusion that each applicant will be able to obtain the funds from the sources normally used in the past for financing its normal construction program.

APPENDIX F

EVALUATION OF THE FINANCIAL QUALIFICATIONS

We have reviewed the financial information in the application and Amendment No. 10 thereto, including the Annual Reports, of the Toledo Edison Company and the Cleveland Electric Illuminating Company for a permit to construct a nuclear reactor with an initial thermal power level of 2,633 Mwt (872 Mwe net) to be known as the Davis-Besse Nuclear Power Station and to be located on the shores of Lake Erie about 21 miles east of Toledo, Ohio. Based on this information we have concluded that the applicants are financially qualified to carry out their commitments under the arrangements as stated in the application to design and construct the proposed nuclear facility.

This conclusion is based upon the following facts and considerations:

1. The applicants, in Amendment No. 10, estimate the costs of construction of the Davis-Besse Nuclear Power Station, including nuclear fuel inventory cost of the first core, to be $305,742,000 made up as follows:

Total nuclear production plant costs	$266,102,000
Transmission, distribution and general plant costs	14,030,000
Total plant construction costs	$280,132,000
Inventory costs of initial core	25,610,000
Total	$305,742,000

The above estimates include interest during construction and escalation.

The details of these estimates as they pertain to the capital costs of the nuclear plant have been reviewed by the Division of Reactor Licensing. The Division deems the estimates to be high but considers them reasonable in that they should be ample to cover all costs to design and construct the plant.

The Division of Reactor Development and Technology has reviewed the fuel requirements, specified by the applicant as 207,486 lbs. UO_2, for the first core of the Davis-Besse reactor and finds them reasonable for a reactor of this type and power level.

2. As stated in the application, Davis-Besse will be owned by the applicants as tenants in common without right of partition in the following proportions: Toledo Edison - 52.5% and Cleveland Electric - 47.5%. The two companies will share in the costs of construction and operation and in the energy production on the same basis. Accordingly, each company's share of the total estimated costs are:

Toledo Edison	$160,515,000
Cleveland Electric	145,227,000
Total	$305,742,000

3. Construction of the Davis-Besse plant will be financed as an integral part of the total construction programs of the applicants in the same general manner as other additions to their generating facilities are financed, e.g., from depreciation and other accruals, undistributed earnings and from sale of new debt and equity securities and short-term borrowing.

   Based on each applicant's record of earnings and provisions for depreciation and other accruals over the past three years, on the reasonable assumption of the continuation of the level of earnings over the next several years, and in view of each applicant's resources, the strength of its financial position, its sound financing and the high regard held for its bond issues, it is our opinion that each company will also be able to finance its commitments for the design and construction of Davis-Besse.

4. Each applicant is soundly financed and has adequate resources at its command, with a solid record of earnings over past years of operations. Capitalization ratios are sound and neither company is overcapitalized on a book value basis. Each company has an AaA1 credit rating and Moody's Investors Service (August 1970) rates the mortgage bonds of Toledo Edison as "high" (Aa) and those of Cleveland Electric as "gilt-edge" (Aaa). The pertinent financial ratios for CY 1969 for each company indicate a continuing

sound financial position and are well in line with those of the electric utilities as a whole. A copy of the financial analysis of each company, reflecting these ratios and other pertinent data, is attached.

TOLEDO EDISON COMPANY
DOCKET NO. 50-346
FINANCIAL ANALYSIS

	(dollars in millions) For the year ended Dec. 31		
	1969	1968	1967
Long-term debt	$ 120.8	$ 121.1	$ 121.6
Utility plant (net)	257.2	248.6	227.8
Ratio - debt to fixed plant	.47	.49	.53
Utility plant (net)	257.2	248.6	227.8
Capitalization	238.5	234.1	230.2
Ratio - net plant to capitalization	1.08	1.06	.99
Stockholders' equity	117.7	113.0	108.6
Total assets	283.0	272.5	261.4
Proprietary ratio	.42	.41	.42
Earnings available to common	13.1	12.1	11.8
Common equity	86.7	82.0	77.6
Rate of return on common equity	15.1%	14.8%	15.2%
Net income	14.5	13.5	13.1
Stockholders' equity	117.7	113.0	108.6
Rate of return on stockholders' equity	12.3%	11.9%	12.1%
Net income before interest	19.0	17.0	15.5
Liabilities and capital	283.0	272.5	261.4
Rate of return on total investment	6.7%	6.2%	5.9%
Net income before interest	19.0	17.0	15.5
Interest on long-term debt	4.9	5.0	3.6
Times interest charges earned	3.9	3.4	4.3
Net income	14.5	13.5	13.1
Total revenues	88.3	80.5	70.9
Net income ratio	.164	.168	.185
Operating expenses	69.0	63.0	54.8
Operating revenues	88.1	80.1	70.3
Operating ratio	.78	.79	.78
Retained earnings	50.8	46.1	41.7
Earnings per share of Common	$2.54	$2.35	$2.28

	1969		1968	
Capitalization:	Amount	% of Total	Amount	% of Total
Long-term debt	$120.8	50.6%	$121.1	51.7%
Preferred stock	31.0	13.0	31.0	13.3
Common stock	86.7	36.4	82.0	35.0
Total	$238.5	100.0%	$234.1	100.0%

Moody's Bond Ratings:
First Mortgage Aa

Dun and Bradstreet Credit Rating AaA1

CLEVELAND ELECTRIC ILLUMINATING COMPANY
DOCKET NO. 50-346
FINANCIAL ANALYSIS

	(dollars in millions) For the year ended Dec. 31		
	1969	1968	1967
Long-term debt	$ 292.8	$ 208.7	$ 198.4
Utility plant (net)	672.5	553.8	462.5
Ratio - debt to fixed plant	.44	.38	.43
Utility plant (net)	672.5	553.8	462.5
Capitalization	566.6	468.9	447.4
Ratio - net plant to capitalization	1.19	1.18	1.03
Stockholders' equity	273.8	260.2	249.0
Total assets	741.1	618.4	545.5
Proprietary ratio	.37	.42	.46
Earnings available to common (net income)	39.2	37.3	35.8
Common equity	273.8	260.2	249.0
Rate of return on common equity	14.3%	14.3%	14.4%
Net income before interest	46.4	40.9	41.0
Liabilities and capital	741.1	618.4	545.5
Rate of return on total investment	6.3%	6.6%	7.5%
Net income before interest	46.4	40.9	41.0
Interest on long-term debt	11.0	6.5	6.5
Times interest charges earned	4.2	6.3	6.3
Net income	39.2	37.3	35.8
Total revenues	218.9	204.1	189.9
Net income ratio	.179	.183	.189
Operating expenses	172.2	163.1	148.7
Operating revenues	218.5	203.8	189.0
Operating ratio	.79	.80	.79
Retained earnings	91.2	79.5	69.1
Earnings per share of Common	$2.92	$2.78	$2.66

	1969		1968	
Capitalization:	Amount	% of Total	Amount	% of Total
Long-term debt	$292.8	51.7%	$208.7	44.5%
Common stock	273.8	48.3%	260.2	55.5
Total	$566.6	100.0%	$468.9	100.0%

Moody's Bond Ratings:
First Mortgage — Aaa

Dun and Bradstreet Credit Rating — AaA1